

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 232 – SB 584

April 10, 2015

**SUMMARY OF ORIGINAL BILL:** Requires any person who furnishes a short term rental to a transient to pay any occupancy tax, sales tax, and any other applicable tax, and to obtain a local business license which shall be prominently displayed on the rental premises and on any marketing materials or website offering short term rental for rent. Defines a short term rental as a room, apartment, condominium, house, or any other dwelling unit or part of a dwelling unit furnished to transients for sleeping purposes in exchange for consideration.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue – \$1,493,600

Increase Local Revenue – \$1,659,900

IMPACT TO COMMERCE OF ORIGINAL BILL:

Increase Business Revenue - \$66,500

Increase Business Expenditures - \$66,500

**SUMMARY OF AMENDMENT (005440):** Deletes all language after the enacting clause. Requires any person who furnishes a short term rental to a transient to pay any occupancy tax, sales tax, and any other applicable tax, and to obtain all required local permits and licenses, all of which shall be prominently displayed on the rental premises. Defines a short term rental as a room, apartment, condominium, house, or any other dwelling unit or part of a dwelling unit furnished to transients for sleeping purposes in exchange for consideration for 15 or more days during any calendar year. Establishes the effective date of January 1, 2016.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Revenue – \$663,800/FY15-16

\$1,327,700/FY16-17 and Subsequent Years

Increase Local Revenue – \$738,300/FY15-16

\$1,476,600/FY16-17 and Subsequent Years

Assumptions for the bill as amended:

HB 232 – SB 584

- The following assumptions are based on the New York State Attorney General 2014 report (Airbnb in the city), and the Department of Revenue's search of Airbnb's website for rentals in Tennessee.
- It is estimated that there are approximately 5,000 short term rentals available each year in Tennessee. This number is assumed to remain constant in perpetuity.
- This fiscal analysis focuses on Airbnb rentals as it is estimated that applicable taxes are charged on most of the other platforms offering short term rentals.
- The average listing is assumed to be reserved 14 times per year, for a total of 70,000 (5,000 x 14) reservations in Tennessee.
- The average consideration charged per reservation is estimated to be \$350.
- The total annual consideration charged is estimated to be \$24,500,000 (70,000 x \$350). It is further estimated that state and local sales tax, and hotel occupancy taxes will be imposed on 80 percent of such charges, or \$19,600,000 (\$24,500,000 x 80%).
- The current state sales tax rate is 7.0 percent; the local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent; the average local hotel occupancy tax rate is estimated to be 4.5 percent.
- The net recurring increase in state sales tax revenue is estimated to be \$1,322,375  $[(\$19,600,000 \times 7.0\%) - (\$19,600,000 \times 7.0\% \times 3.617\%)]$ .
- The total recurring increase in local sales tax revenue is estimated to be \$539,625  $[(\$19,600,000 \times 2.5\%) + (\$19,600,000 \times 7.0\% \times 3.617\%)]$ .
- The recurring increase in local hotel occupancy tax revenue is estimated to be \$882,000  $(\$19,600,000 \times 4.5\%)$ .
- Based on the Department of Revenue's analysis, it is estimated that the recurring increase in business tax revenue will be \$5,300 for the state, and \$55,000 for the local government.
- The total recurring increase in state revenue is estimated to be \$1,327,675  $(\$1,322,375 + \$5,300)$ .
- The total recurring increase in local revenue is estimated to be \$1,476,625  $(\$539,625 + \$882,000 + \$55,000)$ .
- The first year impact (FY15-16) will be 50 percent of the first full year impact, or an increase in state revenue of \$663,838 and an increase in local revenue of \$738,313, due to the effective date of January 1, 2016.

## **IMPACT TO COMMERCE WITH PROPOSED AMENDMENT:**

**Increase Business Revenue – \$30,200/FY15-16**

**\$60,300/FY16-17 and Subsequent Years**

**Increase Business Expenditures – \$30,200/FY15-16**

**\$60,300/FY16-17 and Subsequent Years**

Assumptions for the bill as amended:

- Imposition of the state and local taxes is not anticipated to significantly impact the number of annual nightly rentals in the state.
- There will be a recurring increase in business expenditures of \$60,300 from property owners paying business tax (\$5,300 state portion + \$55,000 local portion). However, such owners are assumed to pass such costs onto transients; as a result the recurring increase in business revenue is estimated to be \$60,300.
- All sales taxes and hotel occupancy taxes are paid by transients; not business owners.
- Any impact on private sector jobs is estimated to be not significant.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink, reading "Jeffrey L. Spalding". The signature is fluid and cursive, with the first name "Jeffrey" and last name "Spalding" clearly legible.

Jeffrey L. Spalding, Executive Director

/bos